

**REPORT OF THE AUDIT OF THE
GRAVES COUNTY
SHERIFF'S SETTLEMENT - 2010 TAXES**

**For The Period
January 1, 2011 Through April 15, 2011**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
GRAVES COUNTY
SHERIFF'S SETTLEMENT - 2010 TAXES

For The Period
January 1, 2011 Through April 15, 2011

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2010 Taxes for the Graves County Sheriff for the period January 1, 2011 through April 15, 2011. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$1,265,658 for the districts for 2010 taxes, retaining commissions of \$46,402 to operate the Sheriff's office. The Sheriff distributed taxes of \$1,213,870 to the districts for 2010 taxes. Taxes of \$6,450 are due to the districts from the Sheriff and refunds of \$4,276 are due to the Sheriff from the taxing districts.

Report Comments:

- 2010-01 The Sheriff Should Enter Into A Written Security Agreement And Require The Depository Institution To Pledge Or Provide Sufficient Collateral To Protect Public Funds
- 2010-02 The Graves County Sheriff Should Prepare An Annual Franchise Tax Settlement As Required By KRS 134.192
- 2010-03 The Graves County Sheriff's Office Lacks Adequate Segregation Of Duties Over Franchise Tax Collections

Deposits:

The Sheriff's deposits as of February 28, 2011 and April 15, 2011 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$270,579 – February 28, 2011
- Uncollateralized and Uninsured \$97,950 – April 15, 2011

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Tony Smith, Graves County Judge/Executive
Honorable Dewayne Redmon, Graves County Sheriff
Members of the Graves County Fiscal Court

Independent Auditor's Report

We have audited the Graves County Sheriff's Settlement - 2010 Taxes for the period January 1, 2011 through April 15, 2011. This tax settlement is the responsibility of the Graves County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Graves County Sheriff's taxes charged, credited, and paid for the period January 1, 2011 through April 15, 2011, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated January 6, 2012 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Tony Smith, Graves County Judge/Executive
Honorable Dewayne Redmon, Graves County Sheriff
Members of the Graves County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2010-01 The Sheriff Should Enter Into A Written Security Agreement And Require The Depository Institution To Pledge Or Provide Sufficient Collateral To Protect Public Funds
- 2010-02 The Graves County Sheriff Should Prepare An Annual Franchise Tax Settlement As Required By KRS 134.192
- 2010-03 The Graves County Sheriff's Office Lacks Adequate Segregation Of Duties Over Franchise Tax Collections

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', written in a cursive style.

Adam H. Edelen
Auditor of Public Accounts

January 6, 2012

GRAVES COUNTY
DEWAYNE REDMON, SHERIFF
SHERIFF'S SETTLEMENT - 2010 TAXES

For The Period January 1, 2011 Through April 15, 2011

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Transfers From Outgoing Sheriff	\$ 132,578	\$ 254,056	\$ 409,835	\$ 188,468
Omitted Taxes	169	518	656	230
Franchise Taxes	62,924	128,600	217,471	
Additional Billings	140	384	346	304
Limestone, Sand and Mineral Reserves	193	236	750	259
Bank Franchises	22,389			
Penalties	8,220	15,433	25,842	11,403
Gross Chargeable to Sheriff	<u>226,613</u>	<u>399,227</u>	<u>654,900</u>	<u>200,664</u>
<u>Credits</u>				
Exonerations	379	1,215	1,295	508
Discounts	448			
Delinquents:				
Real Estate	20,761	45,080	61,390	27,826
Tangible Personal Property	1,221	1,842	1,687	4,263
Intangible Personal Property				
Omitted Taxes	74	339	91	219
Clay Taxes	79	97	308	107
Franchise Taxes	9,201	13,260	24,056	
Total Credits	<u>32,163</u>	<u>61,833</u>	<u>88,827</u>	<u>32,923</u>
Taxes Collected	194,450	337,394	566,073	167,741
Less: Commissions *	<u>8,264</u>	<u>14,027</u>	<u>16,982</u>	<u>7,129</u>
Taxes Due	186,186	323,367	549,091	160,612
Taxes Paid	185,153	320,747	545,448	162,522
Refunds (Current and Prior Year)	<u>462</u>	<u>750</u>	<u>1,381</u>	<u>619</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Audit	<u>\$ 571</u>	<u>\$ 1,870</u>	<u>\$ 2,262</u>	<u>\$ (2,529)</u>

* and ** See Next Page.

The accompanying notes are an integral part of this financial statement.

GRAVES COUNTY
 DEWAYNE REDMON, SHERIFF
 SHERIFF'S SETTLEMENT - 2010 TAXES
 For The Period January 1, 2011 Through April 15, 2011
 (Continued)

* Commissions:

4.25% on	\$	634,263
4% on	\$	60,368
3% on	\$	566,073
1% on	\$	4,954

** Special Taxing Districts:

Library District	\$	524
Health District		197
J.U. Kevil District		117
Watershed District #1		(1,747)
Watershed District #1		17
Watershed District #1		1,751
Volunteer Fire Departments		<u>1,011</u>

Due Districts or
 (Refund Due Sheriff)

\$ 1,870

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2011

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Graves County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were not met, as the Sheriff did not have a written agreement with the bank.

GRAVES COUNTY
 NOTES TO FINANCIAL STATEMENT
 April 15, 2011
 (Continued)

Note 2. Deposits

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Graves County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On February 28, 2011 and April 15, 2011, the Sheriff's bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$270,579 – February 28, 2011
- Uncollateralized and Uninsured \$97,950 – April 15, 2011

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2010. Property taxes were billed to finance governmental services for the year ended June 30, 2011. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 3, 2011 through April 15, 2011.

Note 4. Interest Income

The Graves County Sheriff earned \$106 as interest income on 2010 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office. As of January 6, 2012, the Sheriff owed \$5 in interest to the school district and \$17 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Graves County Sheriff collected \$50,174 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office.

Note 6. The Sheriff deposited unrefundable duplicate payments and unexplained receipts in a separate account. The Sheriff's escrowed amounts were as follows:

2007	\$626
2008	\$157
2009	\$12,503
2010	\$1,001

KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned and abandoned funds are required to be sent to the Kentucky State Treasurer by KRS 393.110. The Sheriff's office currently owes \$626 to the Kentucky State Treasurer for abandoned funds from calendar year 2007.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tony Smith, Graves County Judge/Executive
Honorable Dewayne Redmon, Graves County Sheriff
Members of the Graves County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Graves County Sheriff's Settlement - 2010 Taxes for the period January 1, 2011 through April 15, 2011, and have issued our report thereon dated January 6, 2012. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Graves County Sheriff's office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Graves County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as item 2010-03 to be a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Graves County Sheriff's Settlement - 2010 Taxes for the period January 1, 2011 through April 15, 2011, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2010-01 and 2010-02.

The Graves County Sheriff's responses to the findings identified in our audit are described in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Graves County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', written in a cursive style.

Adam H. Edelen
Auditor of Public Accounts

January 6, 2012

COMMENTS AND RECOMMENDATIONS

GRAVES COUNTY
DEWAYNE REDMON, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period January 1, 2011 Through April 15, 2011

STATE LAWS AND REGULATIONS:

2010-01 The Sheriff Should Enter Into A Written Security Agreement And Require The Depository Institution To Pledge Or Provide Sufficient Collateral To Protect Public Funds

On February 28, 2011 and April 15, 2011, \$270,579 and 97,950 respectively of the Sheriff's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$250,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). We recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff should also require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff Dewayne Redmon's Response: "Have entered into agreement."

2010-02 The Graves County Sheriff Should Prepare An Annual Franchise Tax Settlement As Required By KRS 134.192

The Graves County Sheriff did not prepare an annual franchise tax settlement. KRS 134.192 requires the Sheriff to file a final settlement of all monies collected by his office; this would include any franchise taxes collected. The settlement should include total amount to be collected, discounts given, penalties paid, commissions earned and taxes paid for each taxing district. We recommend that the Sheriff prepare an annual franchise tax settlement by September 1 and have it approved by the Fiscal Court as required by KRS 134.192.

Sheriff Dewayne Redmon's Response: "Will start doing."

GRAVES COUNTY
DEWAYNE REDMON, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period January 1, 2011 Through April 15, 2011
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS:

2010-03 The Graves County Sheriff's Office Lacks Adequate Segregation Of Duties Over Franchise Tax Collections

During the review of the internal control structure, the following deficiencies were noted in the control environment over franchise tax receipts and disbursements:

- The Sheriff's bookkeeper collects money, prepares deposits, and reconciles to monthly collection reports.
- The Sheriff's bookkeeper prepares monthly bank reconciliations.

The Sheriff did not implement any compensating controls to offset these control deficiencies. The Sheriff should segregate duties over franchise tax receipts and disbursements or should implement the following compensating controls to limit the severity of these internal control weaknesses:

- The Sheriff or his designee should periodically prepare the franchise tax deposits and compare it to the collection reports prepared by the bookkeeper for the franchise taxes. Any differences should be reconciled. This review should be documented by signing the bank deposit and collection reports.
- The Sheriff or his designee should review the monthly franchise tax reports and compare monthly reports to checks written. The Sheriff or his designee should also review supporting documentation for any other checks written from the tax account such as overpayments and refunds.
- The Sheriff or his designee should prepare the monthly bank reconciliations. Any differences should be reconciled. This should be documented by signing the bank reconciliation and checkbook.

Sheriff Dewayne Redmon's Response: "Will attempt."

